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Citation for published version:

Coombs, N 2016, 'Bringing financial regulation back down to earth', *Work, Employment And Society*.
<https://doi.org/10.1177/0950017016653041>

Digital Object Identifier (DOI):

[10.1177/0950017016653041](https://doi.org/10.1177/0950017016653041)

Link:

[Link to publication record in Edinburgh Research Explorer](#)

Document Version:

Peer reviewed version

Published In:

Work, Employment And Society

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Bringing financial regulation back down to earth

Howard Davies, *Can Financial Markets Be Controlled?* Cambridge: Polity, 2015, (ISBN: 9780745688312), 136pp.

and

Nicholas Dorn, *Democracy and Diversity in Financial Market Regulation* Abingdon: Routledge, 2014, (ISBN: 9780415712170), 182pp.

Reviewed by Nathan Coombs, University of Edinburgh

Even after the crisis of 2007-08 demonstrated the importance of finance for employment and economic growth, scholarly writing on financial regulation often remains bound by narrow disciplinary conventions. Legal scholars have discussed how attempts to mitigate systemic risk in the financial system are being embedded within Europe's supervisory mechanisms (Wymeersch, Hopt, and Ferrarini, 2012). Political economists have stayed with their traditional concern with questions of order and change when asking whether new regulatory thinking after the crisis signals a turn towards greater political accountability (Pagliari, Zimmerman, and Helleiner 2010). Generally missing are engagements with financial regulation of sufficient scope to inform the work of researchers in adjacent disciplines. The situation is crying out for change. As the effects of financialization (Lapavistas 2011; Zwan 2014) have emerged as a productive area of research for sociologists of work and employment (Thompson 2013; Darcillon 2015), regulation remains one of the last aspects of finance yet to be brought into the emerging interdisciplinary dialogue. The result is that while sociologists have theorised the

potential of regulatory reform to achieve new articulations of finance and society (Walby 2013), such work still lacks a fine-grained appreciation for the complexities of global financial regulation. In this sense, Howard Davies's and Nicholas Dorn's books are potentially valuable contributions to the literature. Davies, a veteran technocrat and renowned regulatory scholar, titles his book *Can Financial Markets Be Controlled?* Dorn, a legal sociologist, has no less ambition with his book *Democracy and Diversity in Financial Market Regulation*. Both authors speak to the need for fundamental thinking about the regulatory enterprise from a perspective sensitive to its legal and institutional minutiae. But does either text live up to its promise?

Released on Polity's mass-market Global Future Series, Davies's book attempts to make debates about the future of financial regulation accessible to the lay reader. Although regulation is never going to be as exciting a subject as rogue traders or bond market shenanigans, it still has all the right elements for a good story – political intrigue, conflicts of interest, and colossal amounts of money at stake. In the prologue, Davies reminds us of the pre-crisis world in which financiers were courted by the great and the good, and when regulators who dared question the sector's practices were routinely chastised by politicians. Once having set the scene, the following chapters then give a judicious account of the causes and consequences of the crisis. Davies locates the roots of the crisis in the new global regime of accumulation arising from East Asian countries with a trade surplus to invest and Western countries taking on excessive debt in order to prop up their faltering economies. These global systemic trends were compounded by a conjunction of failures in the regulatory sphere: over-leveraged banks operating with low capital reserves; consolidation between commercial and investment banks in the United States with the demise of the 1933 Glass-Steagall Act; a lack of transparency with the growth in over-the-counter markets in derivatives; and central bankers' misplaced fixation on inflation targeting. The reliance of central bankers on Dynamic Stochastic General Equilibrium models and their belief in the efficient market hypothesis (the

conviction that markets price assets at their value/risk) only worsened their complacency (see also Engelen et al. 2011).

Where these early chapters give a good summary of explanations for the crisis, the later chapters reflect on the difficulties of regulatory reform. Davies identifies three main problems. First, he notes only limited movement towards global regulatory convergence since the crisis, leaving open the potential for regulatory arbitrage (where financial firms capitalize on cross-national regulatory discrepancies). Second, Davies criticises the fragmentation of regulatory institutions within the European Union and the United States. Third, he sees tension in regulatory responses between measures to increase market discipline and those directed towards a more tightly controlled regulatory regime. Indeed, for Davies the fundamental conflict between market and state is pervasive in post-crisis regulatory reform and indicates an ‘unstable equilibrium which contains the seeds of its own destruction.’ (74) Whether or not one agrees with this pessimistic prognosis, the book is to be commended for achieving an overview of developments in financial regulation without becoming bogged down in the technicalities. And yet, at no point does Davies discern the potential for a fundamentally different approach to regulation. Sociologists seeking insight into how regulatory mechanisms might serve to bring finance to democratic account will therefore struggle to find inspiration here.

Although aspiring towards a similar level of comprehensiveness, Dorn’s book differs from Davies’s in both style and substance. Drawing from legal, political, anthropological and sociological scholarship, the thread which ties together Dorn’s book is a counter-intuitive, normative argument which advocates achieving greater political accountability in financial rule-making by moving away from the commitment to global regulatory convergence. In its place, he instead advocates greater national and regional legal pluralism achieved via politicising and democratising financial regulation. This Dorn presents as a win-win proposition. Not only will localised forms of democratic engagement in setting the principles

of financial regulation address the vicissitudes of technocratic group-think; it will also help mitigate global contagion in the event of another crisis. Democracy and diversity will achieve these desirable results because the global harmonisation of regulatory requirements is, in Dorn's view, responsible for creating a frictionless, capital-mobile environment allowing risks to be quickly transmitted across national borders. Regulatory divergence, on the other hand, can provide a buffer against risk transmission.

The book addresses issues connected to its central argument over three parts. The first, on historical legacies, seeks to deconstruct the rhetorical parameters of existing debates about financial regulation. Intending to expose regulation as essentially self-regulation behind a public façade, Dorn elaborates its historical and political origins in the City of London. Following this, he then criticises the idea of 'too connected to fail' (TCTF) – an idea which gained considerable currency during the financial crisis and served to support public bailouts of banks. By contrasting recent experiences with responses to events such as the collapse of the hedge fund Long-Term Capital Management in the 1990s, Dorn calls into question TCTF's status as received wisdom. The second part, on regulatory hubris, tackles an assortment of issues concerning regulatory forbearance, regulatory arbitrage, and the move from modelling-oriented to judgement-based regulation. His central argument is then put to the test in chapter four by making the case for less integration of financial regulation in the European Union. The third section, on ways forward, engages data-centric approaches to achieving market transparency being adopted by regulators since the crisis. Echoing work by Riles (2013), Dorn represents these measures as a hubristic attempt to achieve panoptical regulatory vision, which only serves to distract attention away from the more pressing issue of devising efficacious means of bank resolution. The final chapter concludes by seeking to demonstrate how only democratic involvement in financial regulation provides the solution to achieving financial stability.

Like Davies's book, Dorn's is a compelling introduction to the state of the art in global financial regulation which succeeds in sustaining the reader's interest through its sometimes labyrinthine material. Dorn pulls off that rare feat of presenting an argument capable of eliciting the interest of interdisciplinary researchers whilst also being grounded in an appreciation for the intricacies of the regulatory sphere. However, neither Davies nor Dorn offer clear solutions for how regulation might reign in financialization or resolve the dysfunctional relationship between employer objectives in work and employment (as proposed by Thompson's (2013) 'disconnected capitalism' thesis). Bringing financial regulation back down to earth so that it can address pressing problems in the 'real' economy remains something that sociologists of work and employment will have to take the lead in theorising. Yet by demystifying the elite discourses of global financial regulation both books may serve as accessible points of entry into the field for scholars interested in and breaking free from existing disciplinary constraints.

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